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Message Text

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ACTION EB-08

INFO OCT-01 ARA-14 ISO-00 CAB-05 CIAE-00 COME-00
DODE-00 DOTE-00 INR-07 NSAE-00 FAA-00 ERDA-07
AID-05 CEA-01 FEAE-00 FPC-01 H-02 INT-05 L-03
NSC-05 OMB-01 PM-05 USIA-15 OES-07 SP-02 SS-15
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P 221100Z SEP 77
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC PRIORITY 3879

UNCLAS SECTION 1 OF 2 BOGOTA 8835

E.O. 11652: N/A
TAGS: EAIR, ENRG, CO
SUBJ: CIVAIR - FUEL PRICE DIFFERENTIAL

REF: BOGOTA 8670, STATE 225304

1. ON SEPTEMBER 20, FOREIGN MINISTRY SENT TO EMBASSY COPY OF MEMORANDUM PREPARED BY AVIANCA ON FUEL PRICE DIFFERENTIAL. IN DIPLOMATIC NOTE TRANSMITTING MEMORANDUM, MINISTRY DESCRIBED IT AS EVIDENCE OF WILL ON THE PART OF THE COMPANIES INVOLVED TO RESOLVE THE PROBLEM AND REQUESTED THAT THE INFORMATION BE BROUGHT TO THE ATTENTION OF THE US GOVERNMENT. THE MINISTRY NOTED THAT THE FORMULA PROPOSED BY AVIANCA WOULD BE SUBJECT TO THE APPROVAL OF ECOPETROL, AS WELL AS TO THE ESTABLISHMENT OF THE MEANS BY WHICH IT COULD BE PUT INTO EFFECT.

2. INFORMAL TRANSLATION OF MEMORANDUM FOLLOWS:
BEGIN QUOTE.

IN VIEW OF THE IMPRACTICABILITY AND INCONVINIENCE OF THE FORMULAS STUDIED ON OTHER OCCASIONS IN ORDER TO RESOLVE THE (FUEL PRICE) PROBLEM, DURING THE MEETING BETWEEN REPRESENTATIVES OF AVIANCA AND BRANIFF IN BOGOTA ON SEPTEMBER 9, 1977,
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ANOTHER EXAMINATION WAS MADE OF THE CASE OF THE SO-CALLED DISCRIMINATION AGAINST BRANIFF, ALLEGED BY THE UNITED STATES GOVERNMENT ON THE BASIS OF THE FACT THAT THE OFFICIAL PRICE FOR FUEL IN COLOMBIA FOR THAT COMPANY AND FOR ALL OTHER FOREIGN COMPANIES IS 55 CENTS PER GALLON, WHILE FUEL PURCHASED BY THE COLOMBIAN COMPANIES FOR THEIR INTERNATIONAL FLIGHTS IS PRICED AT 42 CENTS PER GALLON, THAT IS TO SAY, A DISCOUNT OF 13 CENTS PER GALLON.

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2. BRANIFF PROPOSED (ANNEX 1) ESTABLISHING IN ITS FAVOR SYSTEM
OF DISCOUNTS, BASED ON ECOPETROL MAINTAINING THE SAME LEVEL
OF GROSS RECEIPTS ATTRIBUTABLE TO SALES OF INTERNATIONAL
FUEL, WHICH WOULD OPERATE AS FOLLOWS:
A. AVIANCA AND AEROCONDOR WOULD HAVE THEIR CURRENT PRICE
LEVEL INCREASED FROM 42 CENTS TO 43.25 CENTS. AT THE SAME
TIME BRANIFF WOULD PAY FOR ITS QUARTERLY FUEL CONSUMPTION
IN COLOMBIA IN ADVANCE, WHICH WOULD RESULT IN INTEREST PAYMENTS
OF $108,000 DOLLARS A YEAR, CALCULATED AT AN INTEREST RATE
OF 24 PERCENT.
B. BRANIFF WOULD ACCEPT A PRICE IN COLOMBIA OF 45 CENTS
PER GALLON, REPRESENTING A DISCOUNT OF 10 CENTS PER GALLON AND
THE NOMINAL PRICE DIFFERENCE BETWEEN BRANIFF AND THE COLOMBIAN
COMPANIES WOULD THUS BE REDUCED TO 1.75 CENTS.
C. ON THE BASIS OF THE INTEREST PAYMENT MENTIONED ABOVE AND
THE INCREASE IN PRICE TO AVIANCA AND AEROCONDOR A FUND
OF 410,000 DOLLARS WOULD BE GENERATED, AS INDICATED IN THE ANNEX.
DEDUCTING FROM THAT AMOUNT THE 108,000 DOLLARS PRODUCED
BY THE INTEREST ON THE ADVANCE PAYMENT, YOU WOULD THEN HAVE
302,000 DOLLARS AS THE CONTRIBUTION FROM AVIANCA AND AEROCONDOR,
ATTRIBUTABLE TO THE INCREASE IN THEIR PRICES IN COLOMBIA.
DIVIDING THIS FIGURE BY THEIR FUEL PURCHASES IN COLOMBIA FOR
INTERNATIONAL FLIGHTS, IT CAN BE CONCLUDED THAT THE ACTUAL
CONTRIBUTION TO THE SOLUTION OF THE PROBLEM WOULD BE 240,000
DOLLARS A YEAR BY AVIANCA AND 62,000 DOLLARS BY AEROCONDOR.
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3. DURING THE MEETING IT WAS CONFIRMED THAT, SIMILAR TO THE
DISCOUNT THAT EXISTS IN COLOMBIA FOR THE COLOMBIAN COMPANIES,
IN THE UNITED STATES BRANIFF ENJOYS SPECIAL PRICES, LOWER THAN
THOSE PAID BY AVIANCA IN THAT COUNTRY, BASED ON DIVERSE FACTORS
LINKED TO THE CHARACTERISTICS OF THE NORTH AMERICAN ECONOMY
IN THE MATTER OF FUELS, FACTORS WHICH OBVIOUSLY DO NOT INTEREST
COLOMBIA. THE CLEAR FACT IS THAT IN THE UNITED STATES
BRANIFF HAS MORE FAVORABLE PRICES THAN AVIANCA, JUST AS IN
COLOMBIA AVIANCA AND AEROCONDOR HAVE MORE FAVORABLE PRICES THAN
BRANIFF.

4. THE DIFFERENCES IN PRICES DURING THE MONTH OF JULY IN
LOCATIONS SERVED BY AVIANCA AND BRANIFF TO AND FROM COLOMBIA
ARE AS FOLLOWS (IN DOLLARS PER GALLON):

	BRANIFF	AVIANCA
LOS ANGELES	0.3784	0.4083
MIAMI	0.3820	0.3784
NEW YORK	0.3742	0.3860
SAN JUAN		0.4463

5. THE ARITHMETIC AVERAGE OF THE PRICES PAID BY BRANIFF AT

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THE SAME POINTS SERVED BY AVIANCA IN THE UNITED STATES,
EXCLUDING SAN JUAN SINCE BRANIFF DOES NOT OPERATE BETWEEN
SAN JUAN AND COLOMBIA, WAS 37.82 CENTS PER GALLON, WHILE THE
AVERAGE PAID BY AVIANCA INCLUDING SAN JUAN, WAS 40.475
CENTS PER GALLON, WHICH IS TO SAY THAT THERE EXISTS A DIFFERENTIAL
IN FAVOR OF BRANIFF OF 2.655 CENTS PER GALLON. THIS IS INCREASED
TO 4.255 CENTS ON TAKING INTO CONSIDERATION THE AVERAGE PRICE
PAID BY BRANIFF IN ITS OPERATIONS THROUGHOUT THE UNITED
STATES WHICH, DURING THE MONTH OF JULY, WAS 36.22 CENTS PER
GALLON. ANNEX 2, SUPPLIED BY BRANIFF, SHOWS THAT IN ALL CASES
THE NORTH AMERICAN COMPANIES HAVE MUCH MORE FAVORABLE INTERNAL
PRICES THAN THOSE OBTAINED BY THE COLOMBIANS IN THE UNITED
STATES, EVEN BEFORE TAKING INTO CONSIDERATION DISCOUNTS FOR OTHER
REASONS SUCH AS HANDLING CHARGES, INDEPENDENT SUPPLIERS, ETC,
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WHICH EXIST BUT WHICH HAVE NOT BEEN POSSIBLE TO DETERMINE UNTIL
NOW. ACCORDING TO ANNEX 2 THE AVERAGE PRICE PAID BY THE TRUNK
LINES IN THE UNITED STATES, MANY OF WHICH ALSO OPERATE INTERNATIONALL
Y,
RESULTS IN DIFFERNCES IN RELATION TO AVIANCA OF AS MUCH AS
5.46 CENTS PER GALLON.

6. ANY FORMULA ATTEMPTING TO RESOLVE THE PROBLEMS THAT BRANIFF
HAS IN COLOMBIA MUST, IN THE OPINION OF AVIANCA, NECESSARILY
TAKE INTO ACCOUNT THE FACTOR MENTIONED ABOVE, SINED IF AN
EFFORT IS MADE TO RESOLVE PRICE DIFFERENTIALS AND SUPPOSED
DISCRIMINATION IT IS ONLY LOGICAL TO TAKE INTO ACCOUNT
THE FACT THAT THEY EXIST ON BOTH SIDES, INDEPENDENT OF THE PAR-
TICULAR REASON FOR EACH, INASMUCH AS IT CANNOT BE REQUESTED
THAT THE UNITED STATES SYSTEM OF FREE ENTERPRISE AS REGARDS
FUEL BE APPLICABLE IN COLOMBIA NOR VICE VERSA AS REGARDS
THE SYSTEM OF OFFICIAL CONTROL THAT EXISTS IN COLOMBIA.

7. IN THIS REGARD THE FACT THAT BRANIFF HAS ACCEPTED IN ITS
PROPOSAL TO PAY A PRICE SLIGHTLY HIGHER THAN THAT PAID BY
THE COLOMBIAN COMPANIES COULD BE INTERPRETED AS AN EFFORT
TO COMPENSATE FOR PRICE DIFFERENCES EXISTING IN THE UNITED
STATES. NEVERTHELESS, IT DOES NOT APPEAR THAT THIS IS SUFFI-
CIENT TO EQUALIZE THE REAL PRICE SITUATION OF THE COMPANIES,
AS OUTLINED IN PARAGRAPHS 4 AND 5 OF THIS MEMORANDUM.
BASICALLY, IT APPEARS EVIDENT THAT WHAT IS BEING SOUGHT
IS TO NEGOTIATE A PRACTICAL FORMULA WHICH MIGHTS PERMIT
BRANIFF REASONABLY TO REDUCE ITS FUEL COSTS IN COLOMBIA,
WHICH MEANS THAT BRANIFF ITSELF AS WELL AS THE COLOMBIAN
COMPANIES SHOULD UNDERTAKE EFFORTS TO FIND ADDITIONAL
FORMULAS WHICH ARE MORE CLOSELY RELATED NOT ONLY TO THE FUEL
PRICE DIFFERENTIAL ENCOUNTERED IN THE UNITED STATES, BUT ALSO
TO THE INCREASED COSTS WHICH THE COLOMBIAN COMPANIES WILL BE
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OBLIGED TO SUPPORT.

8. IN ACCORDANCE WITH THIS, AVIANCA WOULD LIKE TO PROPOSE THE FOLLOWING FORMULA:

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FUNDAMENTALS
A) BRANIFF WOULD PAY THE VALUE OF ONE QUARTER'S FUEL CONSUPTION THREE MONTHS IN ADVANCE OF THE DATE THAT THE NEW PRICES (SET FORTH BELOW) WOULD TAKE PLACE, AFTER WHICH DATE THE COMPANY WOULD CONTINUE PAYING ITS CONSUMPTION MONTHLY.
B) THE NEW PRICE FOR INTERNATIONAL FUEL FOR THE AVIATION COMPANIES WOULD BE:
AVIANCA 42.70 CENTS PER GALLON
AEROCONDOR 42.70 CENTS PER GALLON
BRANIFF 48.00 CENTS PER GALLON
OTHERS 55.00 CENTS PER GALLON
CONSEQUENCES OF THE FORMULA
A) ANNUAL RECEIPTS FOR ECOPETROL (WOULD INCREASE VERY SLIGHTLY, BY $1,180):
AVIANCA 0.4270X19,200,000 GAL US $8.198.400
AEROCONDOR 0.4270X5,100,000 GAL US $2,177.700
BRANIFF 0.4800X 4,100,00 GAL US $1,968.000
OTHERS 0.5500X15,900,000 GAL US $8.745.000

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INTEREST 0.4800X 1,025,000 GAL US $ 118.080
US$21.207.180
B) BRANIFF WOULD BE PAYING 48 CENTS PER GALLON, OR
5.3 CENTS PER GALLON MORE THAN AVIANCA AND AEROCONDOR,
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A DIFFERENTIAL WHICH WOULD APPROXIMATELY COMPENSATE FOR
THE DIFFERENTIALS EXISTING IN THE UNITED STATES.
C) AVIANCA WOULD PAY 0.7 CENTS PER GALLON MORE THAN
IT IS PAYING NOW, WHICH WOULD RESULT IN AN INCREASED
COST PER YEAR OF 134,400 DOLLARS, EQUAL TO 4,972,000
PESOS OR APPROXIMATELY 3.1 PERCENT OF ITS NET PROFIT
FOR THE YEAR ENDING DECEMBER 31, 1976.
D) AEROCONDOR WOULD PAY 35,700 DOLLARS MORE PER
YEAR, EQUAL TO APPROXIMATELY 1,320,900 PESOS.
E) BRANIFF, ACCORDING TO ITS MORE RECENT PROPOSAL,
SEEKS TO REDUCE ITS FUEL COST IN COLOMBIA BY 410,000
DOLLARS, WITH THE FORMULA PROPOSED ABOVE, BRANIFF
WOULD OBTAIN A REDUCTION OF 287.000 DOLLARS, EQUIVALENT
TO APPROXIMATELY 10,619,000 PESOS. THAT IS TO
SAY, IT WOULD ACHIEVE APPROXIMATELY 70 PERCENT OF ITS
OBJECTIVE.
F) THE FORMULA WOULD BE PUT INTO EFFECT BY MEANS
OF MECHANISMS TO BE STUDIED TOGETHER WITH ESSO AND
ECOPETROL IN ORDER NOT TO MODIFY FORMALLY THE POLICY
OF THE LATTER AS REGARDS PRICES.
G) IT SHOULD BE ANTICIPATED THAT ANY PRICE INCREASE
BY ECOPETROL RESULTING IN RELATIONSHIPS DIFFERENT FROM
THOSE OUTLINED ABOVE WOULD ALTER THE PROPOSALS. SIMI-
LARLY, FUEL PRICE VARIATIONS IN THE UNITED STATES
WHICH MIGHT UNBALANCE THE FORMULA WOULD ALSO CHANGE
THE PROPOSAL. PERTINENT PROVISIONS COULD BE NEGOTIATED
NOW OR THIS COULD BE DONE AT THE TIME THAT ANY NEW
INFORMATION ON THE PROBLEM IS PRESENTED.
ANNEX I
CURRENT INCOME OF ECOPETROL:
ESSO:
AVIANCA 19.2/MMG
AEROCONDOR 5.2/MMG
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FOREIGN 13.8/MMG
38.1
TEXACO:
FOREIGN 6.2/MMG
TOTAL:

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COLOMBIA 24.3 X $42 $10,206,000
FOREIGN 20.0 X $55 $11,000,000
TOTAL 44.3 $21,206,000
PROPOSED ADJUSTMENT TO ABOVE:
AVIANCA 19.2/MMG X $.42 ' $01.25 INCREASE-$8,304.000
AEROCONFOR 5.1/MMG X $.42 ' $01.25 INCREASE-$2,205,750
BRANIFF 4.1/MMG X $.45 ' -$1,845,000
OTHERS 15.9/MMG X $.55 -$8,745,000
$21,099,750
PLUS INTEREST ACCRUAL DURING YEAR FROM
ADVANCE PAYMENT -$108,000
TOTAL $21,207,750
BRANIFF REDUCTION:
PRESENT 4.1/MMG X $.55 -$2,255,000
PROPOSED X $.45 -$1,845,000
$410,000
ANNEX II
DOMESTIC FUEL CONSUMPTION AND COSTS - DOMESTIC
TRUNKS AND LOCAL CARRIERS - JULY 1977. PREPARED BY
CAB.
END QUOTE

3. MEMORANDUM WAS RECEIVED BY EMBASSY PRIOR TO RECEIPT OF STATE 225304, SUBSTANCE OF WHICH WAS PASSED TO FOREIGN MINISTRY AND AVIANCA'S VICE PRESIDENT FOR LEGAL AFFAIRS.

4. WOULD APPRECIATE GUIDANCE FOR REPLY TO MINISTRY'S NOTE.
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Decaption Note:
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Disposition Approved on Date:
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